

Current Macroeconomic and Financial Situation of Nepal

(Based on One Month's Data of 2019/20)

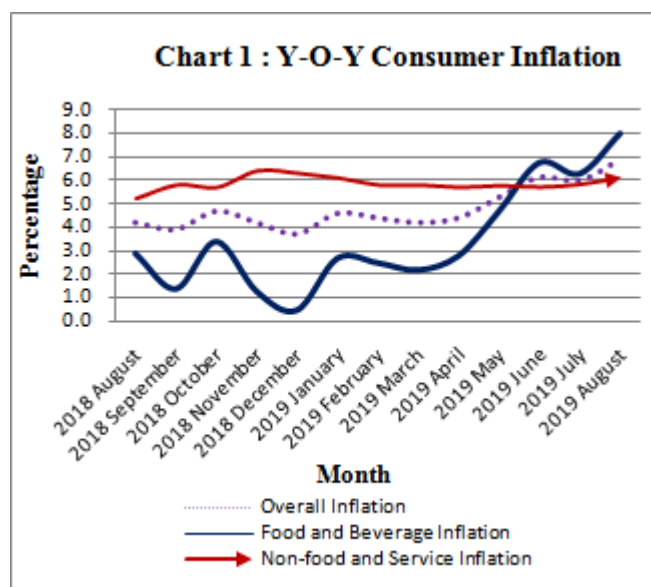
Major Highlights

- Inflation, on y-o-y basis, remained 6.95 percent.
- Import decreased 11.5 percent and export increased 27.7 percent.
- Remittances increased 2.0 percent in NPR and 0.7 percent in USD.
- Balance of Payments remained at a surplus of Rs.6.05 billion.
- Gross foreign exchange reserves stood at Rs.1064.64 billion. This level of reserve is sufficient to cover the prospective merchandise and services imports for 8.8 months.
- Federal Government spending based on banking transactions amounted to Rs.2.62 billion and revenue collection Rs.77.53 billion.
- Broad money (M2) contracted 0.4 percent. On y-o-y basis, M2 expanded 16.3 percent.
- Deposits at Banks and Financial Institutions contracted 0.4 percent and bank credit to the private sector expanded 0.5 percent. On y-o-y basis, deposits increased 17.9 percent and credit 19.2 percent.

Inflation

Consumer Price Inflation

1. The y-o-y consumer price inflation stood at 6.95 percent in mid-August 2019 compared to 4.19 percent a year ago. Food and beverage inflation stood at 8.02 percent and non-food and service inflation stood at 6.12 percent in the review month.
2. Within the food and beverage group, prices of vegetable, fruit, spice, meat and fish spiked in the review month. Likewise, within the non-food and service group, prices of the items in housing and utilities; clothes and footwear; and education sub-groups rose significantly.



3. In the review month, the Kathmandu Valley witnessed 8.63 percent inflation followed by 6.46 percent in the Terai, 5.92 percent in the Hill and 5.57 percent in the Mountain. These regions had witnessed 3.49 percent, 4.14 percent, 5.26 percent and 2.74 percent inflation respectively a year ago.

Table 1: Y-O-Y Consumer Price Inflation (Percent)			
Particulars	Mid-Aug 2018	Mid-Jul 2019	Mid-Aug 2019
Overall inflation	4.19	6.02	6.95
Food and beverage	2.92	6.27	8.02
Non-food and service	5.20	5.83	6.12

4. The y-o-y consumer price inflation in Nepal (mid-August 2019) and India (August 2019) stood at 6.95 percent and 3.21 percent respectively. Such rate of inflation was 4.19 percent in Nepal compared to 3.69 percent in India a year ago.

Wholesale Price Inflation

5. The y-o-y wholesale price inflation recorded 7.02 percent in mid-August 2019 compared to 6.40 percent a year ago. In the review month, primary goods; fuel and power, and manufactured goods sub-groups witnessed 13.10 percent, 6.59 percent and 3.45 percent inflation respectively. In the review month, prices of primary food; fuel and power; textile; and transport equipment and parts sub-groups grew significantly.

6. Based on broad economic classification, prices of consumption goods; intermediate goods and capital goods increased 11.83 percent, 5.11 percent and 2.20 percent respectively.

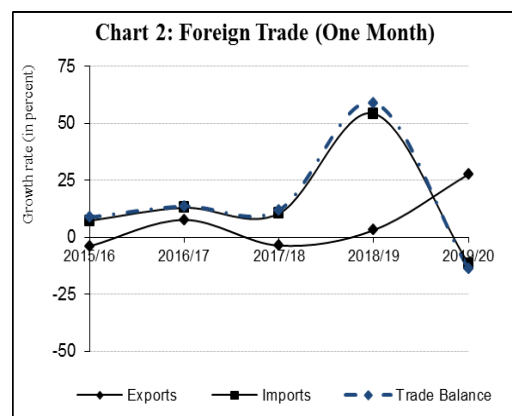
Salary and Wage Rate Index

7. The y-o-y salary and wage rate index increased 13.44 percent in mid-August 2019 compared to 7.4 percent a year ago. In the review month, salary index and wage rate index increased 12.41 percent and 13.72 percent respectively.

External Sector

Merchandise Trade

8. In the first month of 2019/20, merchandise exports increased 27.7 percent to Rs.8.84 billion compared to an increase of 3.2 percent a year ago. Destination-wise, exports to India and China increased 51.8 percent and 132.9 percent respectively whereas exports to other countries decreased 9.2 percent. Mainly exports of palm oil, cardamom, toothpaste, jute goods, polyester yarn among others, increased whereas exports of zinc sheet, juice, readymade garment, pashmina, woolen carpet, among others, decreased in the review period.



9. In the first month of 2019/20, merchandise imports contracted 11.5 percent to Rs.106.73 billion against an increase of 54.3 percent in the same period of the previous year. Destination-

wise, imports from China increased 24.0 percent whereas imports from India, and other countries decreased 4.5 percent and 41.2 percent respectively. Commodity-wise import of hot rolled sheet, crude palm oil, readymade garments, solar panel, other machinery and parts, among others increased whereas imports of aircraft spareparts, M.S. billet, gold, petroleum product, cement, among others decreased in the review period.

10. Based on customs points, exports from Dry Port Customs Office, Bhairahawa Customs Office, TIA Customs Office, Nepalgunj Customs Office and Krishnanagar Customs Office decreased whereas exports from other major customs points increased. On the import side, imports from Dry Port Customs Office, Mechi Customs Office, Rasuwa Customs Office increased whereas imports from other major customs points decreased in the review period.
11. Total trade deficit narrowed 13.9 percent to Rs.97.89 billion in the first month of 2019/20. The export-import ratio increased to 8.3 percent in the review period from 5.7 percent in the corresponding period of the previous year.

Export-Import Price Index

12. The y-o-y unit value export price index based on customs data increased 1 percent and import price index decreased 2 percent in mid-August 2019. The terms of trade (ToT) index increased by 3.1 percent in the review month against a decrease of 2.6 percent in the corresponding month of the previous year.

Services

13. Net services income remained at a deficit of Rs.3.12 billion in the review period compared to a deficit of Rs.3.23 billion a year ago.
14. Under the service account, travel income increased 7.6 percent to Rs.4.72 billion in the review period. Such income was Rs.4.38 billion in the same period of the previous year.
15. Under the service account, travel payments decreased 8.3 percent to Rs.7.02 billion, including Rs.3.49 billion for education. Travel payments was Rs.7.65 billion in the same period of the previous year.

Remittances

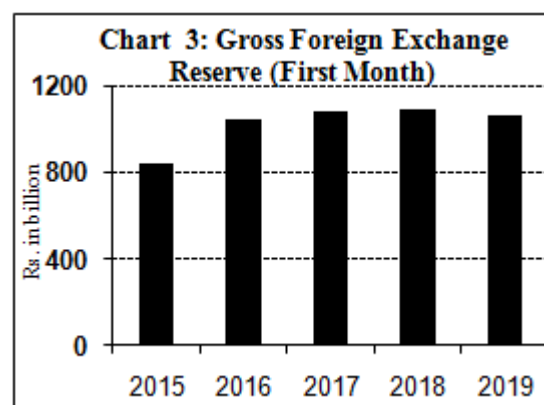
16. Remittance inflows increased 2.0 percent to Rs.75.40 billion in the review period compared to an increase of 33.1 percent in the same period of the previous year. In the US Dollar terms, such inflows increased 0.7 percent in the review period compared to 24.0 percent in the corresponding period of the previous year.
17. Net transfer receipt increased 0.2 percent to Rs.84.93 billion in the review period. Such receipt had increased 35.3 percent in the same period of the previous year.
18. Number of Nepalese workers (institutional and individual-new and legalized) migrated for foreign employment decreased 19.0 percent in the review period. It had decreased 30.8 percent in the same period of the previous year. The number of Nepalese workers (Renew entry) migrated for foreign employment decreased 1.3 percent in the review period. It had increased 1.1 percent in the same period of the previous year.

Current Account and BOP Position

19. The current account registered a deficit of Rs.9.37 billion in the review period. Such deficit was Rs.25.16 billion in the same period of the previous year. In the US Dollar terms, the current account deficit remained 84 million in the review period compared to 228.5 million a year ago.
20. Balance of Payments (BOP) remained at a surplus of Rs.6.05 billion in the review period compared to a deficit of Rs.24.77 billion in the same period of the previous year. In the US Dollar terms, the overall BOP recorded a surplus of 54.2 million in the review period against a deficit of 225.0 million in the same period of the previous year.
21. In the review period, capital transfer and foreign direct investment (FDI) in Nepal amounted to Rs.1.03 billion and Rs.1.44 billion respectively. In the same period of the previous year, capital transfer and FDI amounted to Rs.1.70 billion and Rs.295.7 million respectively.

Foreign Exchange Reserve

22. Gross foreign exchange reserves increased to Rs.1064.64 billion in mid-August 2019 from Rs.1038.92 billion in mid-July 2019. In the US Dollar terms, the gross foreign exchange reserves decreased to 9.38 billion in mid-August 2019 from 9.50 billion in mid-July 2019.
23. Of the total foreign exchange reserves, reserves held by NRB increased to Rs.921.53 billion in mid-August 2019 from Rs.902.44 billion in mid July 2019. Reserves held by banks and financial institutions (except NRB) increased to Rs.143.11 billion in mid- August 2019 from Rs.136.47 billion in mid-July 2019. The share of Indian currency in total reserves stood at 23.2 percent in mid-August 2019.



Foreign Exchange Adequacy Indicators

24. Based on the imports of the first month of current fiscal year, the foreign exchange reserves of the banking sector is sufficient to cover the prospective merchandise imports of 10.2 months, and merchandise and services imports of 8.8 months. The ratio of reserve-to-GDP, reserve-to-imports and reserve-to-M2 stood at 30.7 percent, 73.5 percent and 29.8 percent respectively in mid-August 2019. Such ratios were 30.0 percent, 64.9 percent and 29.0 percent respectively in mid-July 2019.

Price of Oil and Gold

25. The price of oil (Crude Oil Brent) in the international market decreased 14.8 percent to USD 59.0 per barrel in mid-August 2019 from USD 69.21 per barrel a year ago. The price of gold increased 28.4 percent to USD 1515.25 per ounce in mid-August 2019 from USD 1180.40 per ounce a year ago.

Exchange Rate

26. Nepalese currency vis-à-vis US dollar depreciated 3.7 percent in mid-August 2019 from mid-July 2019. It had depreciated 2.0 percent in the same period of the previous year. The buying exchange rate per US dollar stood at Rs.113.55 in mid-August 2019 compared to Rs.109.36 in mid-July 2019.

Fiscal Situation*

Fiscal Deficit/Surplus

27. In the first month of 2019/20, fiscal position of the Government based on banking transactions, remained at a surplus of Rs.76.97 billion compared to a surplus of Rs. 57.54 billion in the corresponding period of the previous year.

Government Expenditure and Revenue

28. In the review period, total expenditure of the federal government based on banking transactions (excluding direct payments and unrealized cheques) stood at Rs.2.62 billion. Such expenditure was Rs. 10.64 billion in the corresponding period of the previous year.

29. In the review period, revenue collection based on banking transactions (including the amount to be transferred to provincial and local governments) stood at Rs.77.53 billion. Total government revenue was Rs. 65.58 billion in the corresponding period of the previous year.

Cash Balance of the Government of Nepal

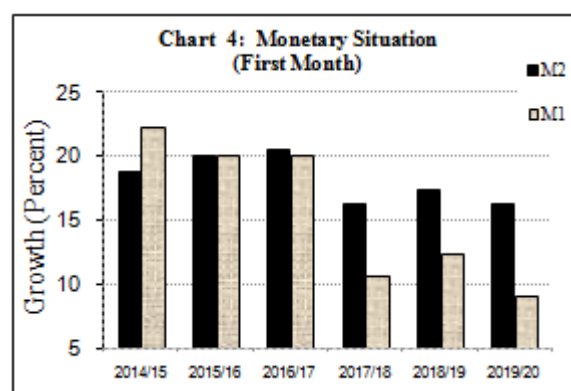
30. Balance at various accounts of the GoN maintained with NRB remained Rs.137.54 billion (including Rs. 38.56 billion in Local Levels' account) in mid-august 2019.

Monetary Situation

Money Supply

31. Broad money (M2) contracted 0.4 percent in the review period compared to a contraction of 0.8 percent in the corresponding period of the previous year. On y-o-y basis, M2 expanded 16.3 percent in mid-August 2019.

32. Net foreign assets (NFA after adjusting foreign exchange valuation gain/loss) increased Rs.6.05 billion (0.6 percent) in the review period compared to a decrease of Rs.24.77 billion (2.3 percent) in the corresponding period of the previous year.



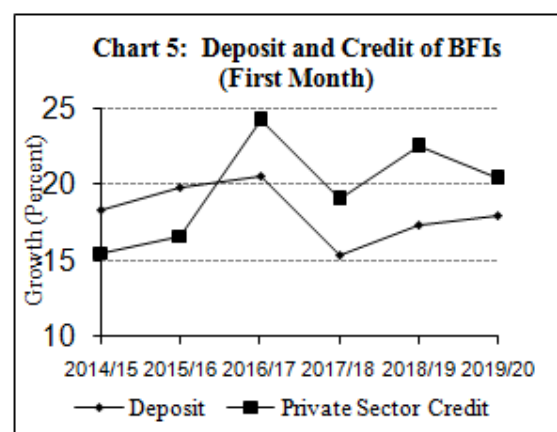
* Based on data reported by banking office of NRB and commercial banks conducting government transactions and report released from 81 DTCOs and payment centers.

33. Reserve money decreased 6.2 percent in the review period compared to a decrease of 16.2 percent in the corresponding period of the previous year. On y-o-y basis, reserve money increased 10.2 percent in mid-August 2019.

Domestic Credit

34. Domestic credit decreased 1.4 percent in the review period compared to a decrease of 0.8 percent in the corresponding period of the previous year. On y-o-y basis, domestic credit increased 20.7 percent in mid-August 2019.

35. Monetary sector's claim on the private sector increased 1.1 percent in the review period compared to a growth of 1.3 percent in the corresponding period of the previous year. On y-o-y basis, such claims increased 19 percent in mid-August 2019.



Deposit Mobilization

36. Deposits at Banks and Financial Institutions (BFIs) decreased 0.4 percent in the review period as well as in the corresponding period of the previous year. On y-o-y basis, deposits at BFIs expanded 17.9 percent in mid-August 2019.

Deposits	Mid-Jul				Mid-Aug	
	2016	2017	2018	2019	2018	2019
Demand	9.1	8.7	9.3	9.7	7.8	7.9
Saving	43.3	35.4	34.5	32.8	34.5	32.9
Fixed	30.5	43.2	44.8	46.3	46.4	48.0
Other	17.1	12.7	11.3	11.2	11.3	11.2

37. The share of demand, saving, and fixed deposits in total deposits stands at 7.9 percent, 32.9 percent, and 48 percent respectively in mid-August 2019 (Table 2). Such shares were 7.8 percent, 34.5 percent, and 46.4 percent respectively a year ago.

38. The share of institutional deposits in total deposit of BFIs stands at 45.2 percent in mid-August 2019. Such share was 44.9 percent in mid-August 2018.

38. The share of institutional deposits in total deposit of BFIs stands at 45.2 percent in mid-August 2019. Such share was 44.9 percent in mid-August 2018.

Credit Disbursement

39. Credit to the private sector from BFIs increased 0.5 percent in the review period compared to a growth of 0.7 percent in the corresponding period of the previous year. On y-o-y basis, credit to the private sector from BFIs increased 19.2 percent in mid-August 2019.

40. Of the total outstanding credit of the BFIs, 64.1 percent is against the collateral of land and building and 13.6 percent against the collateral of current assets (such as agricultural and non-agricultural products). Such ratios were 61.6 percent and 14.6 percent respectively a year ago.

41. Loan of BFIs to agriculture sector increased 0.2 percent, industrial production sector increased 1.5 percent, construction sector increased 0.7 percent, transportation, communication and public sector increased 1.8 percent and service industry sector increased 1.5 percent in the review year.

42. In the review year, term loan extended by BFIs increased 2.3 percent, trust receipt (import) loan increased 5.1 percent and hire purchase loan increased 1.4 percent whereas overdraft decreased 1.9 percent, demand and working capital loan decreased 0.3 percent and margin nature loan decreased 1.1 percent.

Liquidity Management

43. In the review period, NRB mopped up Rs.30 billion liquidity through open market operations. Rs.80.35 billion liquidity was mopped up in the corresponding period of the previous year.

44. BFIs utilized standing liquidity facility (SLF) of Rs.3.30 billion in the review period.

45. In the review period, NRB injected net liquidity of Rs.20.11 billion through the net purchase of USD 178.6 million from foreign exchange market. Net liquidity of Rs.9.69 billion was injected through the net purchase of USD 87.84 million in the corresponding period of the previous year.

46. The NRB purchased Indian currency (INR) equivalent to Rs.46.81 billion through the sale of USD 420 million in the review period. INR equivalent to Rs.39.13 billion was purchased through the sale of USD 320 million and other convertible foreign currencies in the corresponding period of the previous year.

Refinance

47. The outstanding refinance facility provided by the NRB at a concessional rate for expanding credit to the productive sector along with promoting export amounted to Rs.19.89 billion in mid-August 2019. Of which, general refinance of Rs.17.87 billion and export refinance of Rs.162.3 million was availed.

48. The outstanding amount of refinance extended to BFIs for providing concessional housing loan to earthquake victims stands at Rs.2 billion as of mid-August 2019. The number of earthquake victims utilizing such loan is 1578.

Concessional Loan

49. The outstanding concessional loan extended to 17,325 borrowers for selected agriculture and livestock businesses stands Rs.34.26 billion as of mid-August 2019. The concessional loan outstanding to other sectors remains Rs.803.4 million utilized by 1,328 beneficiaries. Total interest subsidy provided by the Government of Nepal (GoN) for the concessional loan stands Rs.1.63 billion.

Inter-bank Transaction

50. In the review period, inter-bank transactions among commercial banks amounted to Rs.146.28 billion and among banks and financial institutions (excluding transactions among commercial banks) Rs.13.84 billion. Such transactions were Rs.68 billion and Rs.5.77 billion respectively in the corresponding period of the previous year.

Interest Rates

51. The weighted average 91-day Treasury bills rate decreased to 0.21 percent in the first month of 2019/20 from 3.34 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 1.88 percent a year ago, decreased to 1.19 percent in the review month.
52. The average base rate of commercial banks decreased to 9.45 percent in the review month from 10.12 percent a year ago. Weighted average deposit rate and lending rate of commercial banks stood at 6.77 percent and 12.08 percent respectively in the review month. Such rates were 6.40 percent and 12.47 percent respectively in the corresponding month of the previous year.

Merger and Acquisition

53. After the introduction of merger and acquisition policy aimed at strengthening financial stability, the number of BFIs involved in this process reached 171. Out of which, the license of 128 BFIs was revoked thereby forming 43 BFIs.

Financial Access

54. Of the total 753 local levels, commercial banks extended their branches at 737 levels as of mid-August 2019 (Table 3).
55. The total number of BFIs licensed by NRB is 171 in mid-August 2019 (Table 4). Of which, 28 commercial banks, 29 development banks, 23 finance companies, 90 microfinance financial institutions and 1 infrastructure development bank are in operation. The number of BFIs branches reached 8805 in mid-August 2019 from 8686 in mid-July 2019.

Province	No. of Local Levels	Local Levels having Bank Branches
Province 1	137	136
Province 2	136	134
Province 3	119	117
Gandaki	85	84
Province 5	109	109
Karnali	79	75
Far West	88	82
Total	753	737

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	Mid-Jul 2018	Mid-Jul 2019	Mid-Aug 2019	Mid-Jul 2018	Mid-Jul 2019	Mid-Aug 2019
Commercial Banks	28	28	28	3023	3585	3643
Development Banks	33	29	29	993	1267	1288
Finance Companies	25	23	23	186	205	207
Microfinance Financial Institutions	65	90	90	2449	3629	3667
Infrastructure Development Banks	-	1	1	-	-	-
Total	151	171	171	6651	8686	8805

*Detail information is available at <http://emap.nrb.org.np/>

Capital Market

56. The NEPSE index increased 1.1 percent to 1224.0 in mid-August 2019 compared to 1210.3 points in mid-August 2018. Such index was 1259.0 in mid-July 2019.

57. Stock market capitalization, on y-o-y basis, increased 7.7 percent to Rs. 1551.60 billion in mid-August 2019. Market capitalization in mid-July 2019 stood at Rs. 1567.50 billion.

58. The number of companies listed at NEPSE stands 217 in mid-August 2019 out of which 154 are bank and financial institutions (BFIs) and insurance companies, 32 hydropower companies, 19 manufacturing and processing industries, 4 hotels, 4 trading companies and 4 others. The number of companies listed at NEPSE was 196 in mid-August 2018.

59. The share of BFIs and insurance companies in stock market capitalization is 77.9 percent. Such share for hydropower companies is 6.9 percent, manufacturing and processing industries 4.1 percent, hotels 1.7 percent, trading companies 0.1 percent and the share of other sector companies is 9.3 percent.

60. The paid-up value of the 4.34 billion listed shares at NEPSE stood at Rs. 425.52 billion in mid-August 2019.

61. Securities worth Rs 23.46 billion were listed at NEPSE in the first month of 2019/20. Such securities comprise ordinary shares worth Rs. 20.64 billion, bonus shares worth Rs. 2.67 billion and debenture worth Rs. 150 million. Securities Board of Nepal approved the issuance of debentures worth Rs. 1 billion during the period.

